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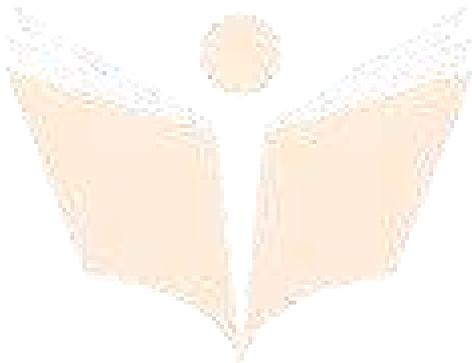
SIMPLIFYING
IAS EXAM PREPARATION

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Micro, Small and Medium Enterprises

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Empowering India's MSME Sector

Introduction

- MSME sector has been recognised globally as a **major contributor to GDP** and **stimulator for economic growth**.
- The sector plays a crucial role in providing **employment opportunities**, fosters **entrepreneurship** and growth led by **innovation**.
- The sector also complements large businesses as ancillary units in fulfilling their business requirements, thereby contributing to the **socio economic development** and **inclusive growth** of the country.

Indian Perspective

- Nearly, **90% of the industrial units** belong to this sector, employing **40% of India's workforce**. With Indian economy likely to become a \$5 trillion economy by 2025, the development of the sector has become critical.

Strengthening MSMEs

- There are many challenges like timely access to **credit**, **infrastructural gaps**, **technological obsolescence**, and **access to market and skilled man power**.
- With **increasing competition** from neighbouring countries like China, Indonesia, Philippines, and Thailand, it has become imperative for the sector to adopt robust strategies to become globally competitive.
- Measures are also underway to enhance the overall contribution of the manufacturing sector in India's GDP to 25% by 2022.

Financing SMEs

- Timely access to adequate finance is a priority for MSME and remains a challenge. In order to address this concern, coverage under **Credit Guarantee Fund Scheme** has been augmented by the government.

Prime Minister's Employment Generation Programme (PMEGP)

- PMEGP is scheme whereby Micro Enterprises are setup every year creating employment opportunities across the country.

Khadi and Village Industries

- They are the two important **National Heritage sectors** of India. The sector plays a vital role in providing employment opportunities in rural areas at low per capita investment especially to people belonging to weaker sections of the society.
- The sector represents an exquisite heritage product, which is **ethnic as well as ethical**.

Focus on Technology

- Today enterprises need to **adopt best practises** and follow **international standards** to go forward for offering innovative solutions.
- A **Credit Linked Capital Subsidy Scheme (CLCSS)** is operational for upgradation of technology for MSMEs.
- The scheme for Financial Support to MSMEs in **Zero Defect Zero Effect (ZED)** certification is an extensive drive to create awareness amongst MSMEs about ZED manufacturing and motivate them for assessment of their enterprise for ZED and support them.

Strengthening Infrastructure

- **Availability of infrastructure** such as access to utilities, market, skilled manpower and technology etc is a must for any enterprise to run its operations successfully in the market.
- In this context, the government has adopted a **cluster-based approach** for the development of MSMEs.

Access to New Markets

- The Ministries and departments of central government and central public sector enterprises shall **procure 20% of goods and services from MSMEs** as part of **Public Procurement Policy**.
- This policy also focuses on MSMEs owned by SC and ST enterprises. To promote entrepreneurship culture for SC-STs, a **National SC-ST hub** has been launched.

Human Capital

- Attracting and retaining new talent has become an important factor for the growth of MSMEs.
- MSME sector holds the key for skilling our workforce, especially at a time when 65% of our population is below the age of 35.

Questions

1. It is said that the new engines for the India growth and equity story are MSME (micro, small and medium enterprises) and not large corporations. Examine why.
2. MSME sector has been recognised globally as a major contributor to GDP and stimulator for economic growth. Suggest the ways to strengthen the MSME sector.
3. The 'Zero Effect Zero Defect' idea aims to achieve
 - (a) Production mechanisms wherein products have no defects
 - (b) Production processes that are ensure maximum safety for shop floor workers
 - (c) Both a and b
 - (d) Neither a nor b

Solution (a)

Promotional Avenues for MSMEs

Introduction

- The primary responsibility of promotion and development of the MSME sector lies with the state governments. The Government of India recognises the **importance of MSME** sector for the growth and development of the **national economy** and for generation of **employment**.
- **Ministry of MSME** has been the first to be awarded **ISO 9001-2008 certification**, demonstrating the ministry's mission of promoting the growth and development of MSME.

Role of Ministry of MSME and the Government

- The role of the Ministry of MSME is to **assist the states** in their efforts to **encourage entrepreneurship, employment and livelihood opportunities** for MSMEs.
- There are several schemes which have been introduced to promote MSME sector.
- **A scheme for promoting innovation and rural entrepreneurship (ASPIRE)** was formulated to set up a network of technology centres and incubation centres to accelerate entrepreneurship and start-ups in agro-industry.
- Marketing is one of the critical areas where MSMEs face problems for which the government has **public procurement policy for MSMEs**. Under the policy 20% of the total procurement of any government ministry / department is to be procured from the MSMEs.
- The government has initiated **“Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises”** to revive and rehabilitate sick MSMEs.
- **Stand-up India** initiative envisages promoting entrepreneurship among SC/ST and Women Entrepreneurship.
- India is poised to be one of the youngest countries in the world by 2020. Therefore, it's time to **invest on youth**.
- Youth as most vibrant and dynamic segment is the country's most valuable human resource as well as assets. They have tremendous role to play in nation building and they require jobs and right grooming to be industry ready.

Questions

1. **Critically discuss major problems plaguing the micro, small and medium enterprises (MSMEs) sector in India. Do you think government's policies to boost this sector adequately address these problems? Examine.**
2. **Examine the role played by the Ministry of MSME to encourage entrepreneurship, employment and livelihood opportunities for MSMEs.**

Enhancing Competitiveness through Technology Upgradation

Introduction

- In the current globalised world, it is imperative to enable MSMEs to adapt and thrive in a more open environment and participate more actively in the digital transformation, to boost economic growth and deliver a more inclusive globalisation.
- MSMEs have relatively inadequate ability to manage technology as they have **limited human resources** and **weak financial standing**.
- MSMEs particularly in the unorganised sector show **weaknesses in technology development and innovation**. This introduces opportunities for public intervention for technology development through technology transfer.

Technology Transfer

- Technology can be defined as the knowledge whereby economic efficiency can be improved. Technology development is of **paramount importance** for Indian MSMEs, if they have to **remain competitive in the domestic market and penetrate the international market**.
- Technology transfer assumes significance because technological obsolescence has been one of the most severe problems identified with the Indian MSME sector time and again.
- MSMEs would prefer technology transfer to save on time and money and to achieve technology upgradation.
- What is more important is the **transfer of information and skills** because if the acquiring firm has to effectively use the transferred technology, necessary information and skills related to the use of the new technology is essential and critical.
- **Achievements of technology transfer:**
 - Increase in number of new products
 - Shortened product development cycle
 - Increase in productivity due to cost reduction
 - Sales increase

Conclusion

- Technology upgradation is desired by MSMEs to achieve multiple objectives such as overcoming technological obsolescence, scale/scope expansion, and entering international market.
- Technology transfer would enable MSMEs to realise their objectives leading to an overall **enhancement of economic performance and competitiveness**.

Questions

1. **Technology development is of paramount importance for Indian MSMEs, if they have to remain competitive in the domestic market and penetrate the international market. Examine.**
2. **What are the constraints involved in transfer of technology to MSMEs. Suggest suitable measures to overcome these constraints.**

Accessing Finance: Challenges to the MSMEs

Introduction

- MSMEs are considered the **backbone of most economies** globally. Their immense contribution cuts across socio-economic, political and technological dimensions in a society.
- In India MSMEs are defined on the basis of investment in plant and machinery as opposed to employment based criteria in most other countries.
- There is a consensus that MSMEs face enormous hurdles in accessing finance everywhere. Almost 90% of the MSMEs are dependent on informal sources for funding.

Supply Side Constraints

- Banks are required to lend 40% to 'Priority Sector'. The Priority sector constitutes of Agriculture having a sub-target of 18%. There is **no specific sub-target for MSMEs within the priority sector lending**.
- MSMEs are bracketed with the sectors which bankers find more lucrative and easier to lend such as housing and education.
- For MSMEs where promoters could be first generation entrepreneur, bankers try to minimise their risks by insisting on asset based collateral securities for lending. Potential MSME promoters not having asset based collateral are excluded.
- India's adoption of Basel-II norms made lending to MSMEs even more difficult.
- RBI asked banks to get their exposure above Rs. 5 crore to be rated through credit rating agencies. It also mandated banks to adopt Special Mention Account (SMA), where even a 30 day deviation on payment against principal or interest needs to be reported. It is the MSMEs that bore the brunt of all these measures.

Demand Side Constraints

- The micro enterprises are largely informal and unorganised. It faces **financial inclusion challenges** owing to its informal nature, lack of information needed by banks and documents.
- Their major problems are **lack of sufficient collateral** and high working capital needs as their payments are delayed by their buyers.

Policy Response

- There are **financial inclusion programmes** like Pradhan Mantri Jan Dhan Yojana (PMJDY) where banks reached out to the informal sector like never before.
- **Credit Guarantee Trust for MSMEs** has been created to access loans without collateral securities.
- To enable MSMEs to have access to equity for green field or brown field, both BSE and NSE have been allowed to create dedicated SME exchanges.
- The most critical reform is enactment of Indian Bankruptcy and Insolvency Code, 2016.

Way Ahead

- The creation of these institutions fills important needs of a modern financial system, but lot needs to be done.

- There is a need to create a revolution similar to telecom in the banking sector where the service providers chase the clients.
- The government will have to exit from banking and cede space to private sector to create massive competition.

Questions

1. MSMEs face enormous hurdles in accessing finance. Do you agree? What are the steps taken by the government to address the issue and suggest ways to improve access to finance for MSMEs.

2. There is no specific sub-target for MSMEs within the priority sector lending. Do you think lending MSMEs under priority sector lending solve the financial constraints faced by MSMEs.

3. Consider the following statements about National SC-ST hub:

1) The objective of the SC/ST (Schedule Castes/Schedule Tribes) Hub is to provide professional support to entrepreneurs from the SC/ST.

2) It will work towards strengthening market access/linkage, capacity building, monitoring, sharing industry-best practices and leveraging financial support schemes.

3) Facilitates technology knowhow and public procurement for SC/ST industrial units.

Which of the above statements is/are correct?

- a) 1 and 2
- b) 1 and 3
- c) 1, 2 and 3
- d) 2 and 3

Solution (c)

4) Consider the following statements about the ASPIRE scheme:

1) It is an initiative under the Ministry of Skill Development and Entrepreneurship

2) It aims to promote rural entrepreneurship

Which of the above statements is/are correct?

- a) 1 only
- b) 2 only
- c) 1 and 2
- d) Neither 1 nor 2

Solution (b) ASPIRE Scheme is under the Ministry of Micro, Small & Medium Enterprises.

5) Who monitors Priority Sector Lending (PSL) in commercial banks?

- a) Reserve Bank of India (RBI)
- b) Small Industries Development Bank of India (SIDBI)
- c) National Bank for Agriculture and Rural Development (NABARD)
- d) Government of India (GOI)

Solution (a)

Quality Certification: Trigger Force for Competitiveness

Introduction

- MSMEs are the engine of growth for Indian economy as this sector has been spreading entrepreneurial culture in all parts of our country.
- The contribution of MSME sector is 8% of GDP, 45% of manufacturing output and 40% of exports of the country.
- MSMEs have potential for flexible adaptation to global challenges in changing market conditions and competition.

Significance of Quality Certification

- The world is in transition phase that demands global approaches to solving problems of micro and macro economics.
- Quality certification is becoming extremely significant in competitive markets for **gaining strong foothold in exports**.
- An enterprise can only **develop higher performance and sustainable profitability** if the quality standards are in sync with global standards.
- Quality and technology upgradation are important factors for **enhancing competitiveness** in MSMEs.
- Due to limited resources and funds many MSMEs are unable to grow beyond a certain point in the global value chain because of their non competitiveness.

Schemes for Quality Certification

- Various schemes for quality certification of government of India are:
 - National Manufacturing Competitiveness Programme (NMCP)
 - Technology and Quality Upgradation Support to MSMEs
 - Financial Support to MSMEs in ZED (Zero Defect Zero Effect) Certification Scheme
 - Quality Certification – ISO Certification Assistance

Way Forward

- If India has to achieve growth rate of 8-10% for the next decade, it requires a strong and vibrant MSME sector who can withstand global challenges.
- Entrepreneurs need to develop quality conscious mindsets embedded in the organisational culture.
- Sensitisation and handholding of MSMEs at different and upgraded level of certification is the need of the hour.
- Indian MSMEs have the potential to become global enterprises. To manifest this, MSMEs need to invest in quality certifications and R&D.

Questions

1. Examine the significance of Quality Certification for gaining strong foothold in exports for MSMEs.

2. If India has to achieve growth rate of 8-10% for the next decade, it requires a strong and vibrant MSME sector. Comment.

Encouraging Environment for Small Enterprises

Introduction

- Small Enterprises have always had an important place in Indian economy. Therefore economic policy should rightfully be targeted at **promotion and protection of small enterprises**.

Impact of Liberalisation and Globalisation

- Industrial policy adopted in the post independence period allowed small scale industries (SSI) to operate in the consumer goods sector and even many items were reserved for SSIs.
- The New Economic Policy (NEP) storm mercilessly killed this policy of reservation.
- The preference given to small industries in procurement vanished in the name of promoting competition.
- It was argued that if we continue protecting domestic industry including Small Scale Industries, Foreign Investors would be discouraged and consumers' choices would be also hampered.
- Policy of open imports in the era of globalization did help us in getting number of goods and technology, but at the cost of closure of millions of Small Enterprises.
- Small Scale sector in general faced extinction especially due to import flood from China. Huge **import surge from China** caused huge burden of foreign exchange payment on the country and businesses were also destroyed, causing widespread unemployment.

Why there is a need to encourage Make in India?

- It is important to understand that Chinese government provides most conducive atmosphere for the development of industry and entrepreneurship in China and has turned China as manufacturing hub of the world.
- In India, costly electricity, outdated labour laws, complicated tax system, high rates of taxes, problems in getting finance, lack of infrastructure, laws inhibiting start of enterprise, have been coming in the way of healthy development of Small Scale Sector.

Need for Separate Labour Laws

- The policy of unjustified 'hire and fire' policy is no good and we need to **protect workers' interests**.
- Due to complex labour laws, small enterprises have started shifting to contract labour.
- Contract labour is exploited by the intermediaries and organic relationship between entrepreneur and the labour goes missing.
- Therefore we need to have **separate labour laws for Small Enterprises**.

Finance

- Banks and other Financial Institutions feel that it's risky and cumbersome to lend to small enterprises.
- There is hardly any truth in this thinking, given the NPA crisis being faced by banks due to big loans turning bad. Banks even circumvent their legal binding of priority lending to Small Enterprises.
- Small Enterprises get loans at higher interest rates, whereas big borrowers get loan at much cheaper rates and on more easy terms, without hassles.

- The government has tried to facilitate Small and Micro Enterprises through Micro Units Development and Refinance Agency (MUDRA), Startup schemes etc.

Restricting Flooding and Dumping of Imports

- Foreign trade has been a major cause for distress to Small Enterprise because of dumping by some foreign countries, especially China.
- Central government has now started imposing Anti-Dumping Duty in a big way. This would give reprieve to domestic industry and trade deficit with China is also expected to come down.

Preference in Government Procurement

- Recently, a new **preferential procurement policy** has been made by the government. It is expected that preferential procurement of domestic goods would go a long way in encouraging domestic industry in general and Small Scale Industry in particular.

Ending Inspector Raj

- There are more than 40 laws applicable on SSIs and more than 50 Inspectors visit their factories, and many of them have wide ranging powers to penalize SSIs.
- Living under these threats, SSIs find it difficult to concentrate on core areas like production, marketing and up gradation of technology.
- There are many such laws which have lost utility in modern times, and there are many others which come in way of healthy functioning of the economy in general and industry in particular.
- There is a need to **facilitate new entrepreneurs** by single window clearances of all types. Some states have initiated this process.
- As more and more state governments are going online, this process will further accelerate. Under new initiatives for Startups, online clearances are already being given.

Building Infrastructure

- It's almost impossible to start and run Small Enterprises in a remote area. They are neither connected with rail or road; nor do they have assured source of power.
- Even in big and developed places, assured power supply is a big issue. Generators are under rampant usage which is a source of pollution and units equipped with generators are subject to exploitation by concerned departments' inspectors.
- There is need to develop infrastructure of various kinds including rail, road, power, skill development, markets (including e-portals) etc.
- Universal electrification of villages, solar energy, and fast tract building of roads is expected to help promotion to small scale and tiny industries, especially in rural areas.

Conclusion

- Indian people need conducive environment for entrepreneurship development. This is majorly a work of the government. The government has to make good laws and make atmosphere conducive.

Questions

1. Examine the Impact of Liberalisation and Globalisation on the Small Industries sector in India.

Role of MSMEs in New India

Introduction

- Worldwide, the MSMEs have been accepted as the engine of economic growth and for promoting equitable development.
- The MSMEs constitute over 90% of total enterprises and generates highest rates of employment especially in rural areas and account for a major share of industrial production and exports.
- It is important that MSME segment develops in all areas of agriculture, manufacturing and services, because they contribute to overall GDP growth as well as employment generation.

MSMEs in Budget 2017-18

- To give a big boost to MSME to thrive in a competitive environment, the Finance Minister has proposed to reduce the tax rate of MSMEs.
- In a drive to promote digital way of doing business, a lower tax rate has been proposed to small companies whose sale proceeds are realised through banking channels.

Future Prospects

- The growth of new wave MSME must be led by entrepreneurship focused on innovation and technologies. Creating opportunities for women entrepreneurs and developing skilled resources across the following areas:
- **Come Make in India**
 - Promote foreign companies to invest in manufacturing, service and agricultural related segments.
- **Digital India**
 - Promote MSMEs' manufacturing and service capabilities in the ICT sector.
- **Export Contribution**
 - Promote export contribution by developing MSME segment to be globally competitive and adopt research and development, innovation and global technologies.
- **Public Procurement Policy**
 - Promote at least 25% portion of total procurement by defence and public sector enterprises from MSME.
- **Indigenisation**
 - Incentivise MSME vendors to indigenise and enable import substitution by adapting to research and development, innovation and global technologies.
- **Traditional and Heritage Industries**
 - Incentive any stakeholder that invests in India's traditional and heritage industries for goods, services and agricultural and natural medicines.
- **Funding**
 - Providing incentives for investments by High Net Worth individual into MSME as well as incentivise debt funding in MSME segment.

Questions

1. MSMEs have been accepted as the engine of economic growth. Critically examine the future prospects for the growth of MSME sector.

Facts for Prelims

Udyog Aadhaar Memorandum (UAM)

- UAM is a one-page registration form for the MSMEs to get registered under MSME.
- The ministry of MSME has set up the **Udyog Aadhaar Portal** for online filing of UAM by enterprises.
- This initiative is likely to save cost in the long run since states/UTs would no longer be requiring maintaining the data on MSMEs.
- It is expected that UAM shall unlock the potential of MSMEs, besides improving our ranking in Doing Business Index.

Intensified Mission Indradhanush (IMI)

- Through this programme, Government of India aims to reach each and every **child less than two years of age and all those pregnant women who have been left uncovered under the routine immunisation programme.**
- The special drive will focus on improving immunization coverage in select districts and cities to ensure full immunization to more than 90% by December 2018.
- IMI will cover low performing areas in the selected districts and urban areas.
- Special attention will be given to unserved/low coverage pockets in sub-centre and urban slums with migratory population.
- The focus is also on the urban settlements and cities identified under National Urban Health Mission (NUHM).

Electronic Negotiable Warehouse Receipt (e-NWR) System

- Web Portal of Warehousing Development and Regulatory Authority (WDRA) & Electronic Negotiable Warehouse Receipt (e-NWR) System was launched recently.
- They are aimed at simplifying the Warehouse Registration Rules, digitizing the entire process of registration, monitoring and surveillance as well as creation and management of Negotiable Warehouse Receipts (NWRs) in electronic form.
- These NWRs will not only facilitate an easy pledge financing by banks and other financial institutions but also smooth trading on various trading centres like commodity exchanges, electronic National Agriculture Markets (e-NAM) and other electronic platforms.
- These initiatives would revolutionise the marketing of agricultural commodities and help farmers realize better price for their produce which will be a step towards doubling the farmers' income by 2022 as well as Digital India mission.